

Message Text

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21

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 1623

INFO AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

AMEMBASSY THE HAGUE

C O N F I D E N T I A L JIDDA 4429

DEPT PASS FRB AND TREASURY

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: FOREIGN BANKING IN SAUDI ARABIA

REF: A. STATE 73838; B. JIDDA 1928

1. EMBASSY INFORMED THAT NO UNDERSTANDINGS WERE REACHED BETWEEN GOV. QURAISHI OF SAMA AND WRISTON (OF FIRST NATIONAL CITY) DURING FORMER'S VISIT TO U.S. BOTH APPRENTLY STATED THEIR POSITIONS OF SAUDIFICATION OF FOREIGN BANKS IN THE KINGDOM AND DID NOT BUDGE. WE HAVE NOT YET HAD AN OPPORTUNITY TO FOLLOW UP WITH QURAISHI; AND ARE AWARE OF NO FURTHER MOVEMENT HERE WITH OTHER BANKS. BRITISH BANK OF THE MIDDLE EAST IS STILL DRAGGING ITS HEELS IN
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CONCERT WITH FNCB. ON THE OTHER HAND, THE BANK OF

PAKISTAN, WHICH HAD REACHED AGREEMENT WITH SULEYMAN AND JUFFALI INTERESTS HAS NOT YET RECEIVED THE COUNCIL OF MINISTERS APPROVAL NECESSARY TO FORM THE NEW JEZIRA BANK. RUMOR HAS IT THAT THE DUTCH BANK (ALGEMENE BANK NEDERLAND N.V.) MAY RECEIVE PERMISSION BEFORE THE PAKISTANIS. WE HAVE NO INFORMATION ON DUTCH PARTNERS.

2. BANKS HAVE NOW RECEIVED INFORMATION CONFIRMING A FEBRUARY ORDER TO THE EFFECT THAT INTEREST PAID BY LOCAL BRANCHES TO HEAD OFFICES OR BRANCHES ABROAD (OR TO OTHER BANKS ABROAD) IS SUBJECT TO THE ZAKAT TAX AND TO INCOME TAX REGULATIONS. THIS WILL HAVE THE EFFECT, OF COURSE, OF ESSENTIALLY ELIMINATING THE POSSIBILITY OF BORROWING FROM ABROAD AND LOANING LOCALLY (THE SPREAD WOULD BE SO HIGH AS TO BE PROHIBITIVE).

2. BORROWING FROM HOME OFFICE OR BRANCHES COULD HAVE BEEN AN AVENUE TO INCREASE LOCAL ASSETS OUTSIDE OF THE RESTRICTIONS OF LOCAL MONEY MARKETS.

3. FIRST NATIONAL CITY HAS AN APPLICATION PENDING TO INCREASE THEIR CAPITALIZATION. THIS WILL BE THE FIRST TEST CASE OF SAMA'S ATTITUDE TOWARD ALLOWING THE BANK TO ENLARGE WITHOUT SELLING EQUITY TO SAUDIS. FNCB HAS ALREADY BEEN APPLYING ALL PROFITS (1974 PLUS THE PROFITS FROM EACH OF THE FIRST FIVE MONTHS OF 1975) TO ITS CAPITAL RESERVES. THEY HAVE INFORMED SAMA OF THIS EFFORT TO INCREASE OPERATION, BUT HAVE NOT RECEIVED A RESPONSE.

4. A SURPRISING ISSUE DURING THE QURAISHI/WRISTON MEETING IN NEW YORK WAS THE FORMER'S STRONG OPPOSITION TO THE SR 50 MILLION FNCB LOAN TO THE GOVERNMENT OF OMAN. ACCORDING TO FNCB SOURCES HERE, THE GOVERNOR IS DETERMINED THAT THE SAUDI RIYAL WILL NOT BECOME AN INTERNATIONAL CURRENCY. HE HAS NO AVERSION TO LOANS DENOMINATED IN DOLLARS OR OTHER CURRENCIES.
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